

DIRECT LOANS

THE DIRECT LOAN PROGRAM IS NOT A SAFE HAVEN FOR HIGH DEFAULT-RATE SCHOOLS

Direct Loans not only introduces improved default prevention mechanisms, but schools selected to participate in direct lending actually have *lower FFELP cohort default rates than FFELP-only schools*. The Department of Education's (ED) implementation of the Direct Loan program and its efforts to address schools' student loan default rates should be reviewed in their entirety:

COHORT DEFAULT RATES ARE LOWER FOR SCHOOLS PARTICIPATING IN DIRECT LOANS...

According to the General Accounting Office, the average FY 1992 (the latest data available) FFELP cohort default rate for schools participating in Direct Loans is *11.3%, compared with 15% for FFELP-only schools*. A school must be eligible to participate in FFELP in order to be eligible to participate in direct lending and must maintain FFELP eligibility after it enters the Direct Loan Program.

DIRECT LOANS REPRESENTS THE ENTIRE COMMUNITY OF ELIGIBLE SCHOOLS...

By law the Direct Loan program is required to achieve a reasonable representation of all schools participating in federal student aid programs. Proprietary schools represent *the largest number of schools in both direct lending and FFELP*, but they represent the smallest percentage of loan volume.

ED INITIATIVES RESULT IN A DRAMATIC REDUCTION IN DEFAULTS...

As a result of aggressive default prevention and default collection efforts begun in 1989, *net* annual default costs were less than \$500 million for the past year. This compares to a high of \$2.9 billion in FY 1991.

DIRECT LOAN CENTRALIZED DATA COLLECTION SAFEGUARDS AGAINST DEFAULTS...

The immediate and direct access to all student loan account activity provided by the Direct Loan centralized database represents a revolutionary breakthrough in default prevention. The availability of on-line, real-time data on all Direct Loan borrowers will facilitate the Department's monitoring of borrowers' loan repayment activity and calculation of schools' default rates in a more timely, accurate manner. For the first time, a real default prevention program can be initiated for both borrowers and schools. This level of control is not available under FFELP, where default rate calculations lag two years behind the current academic year.

STRENGTHENED DEFAULT PREVENTION MECHANISMS ARE TO BE INSTITUTED IN BOTH DIRECT LOANS AND FFELP...

By December 1995, ED will publish final regulations to enhance the FFELP's default-reduction initiative and provide additional default prevention measures in direct lending. Among other important modifications, the regulations will define a default measurement for direct lending similar to the FFELP cohort default rate and will establish triggers, similar to those in FFELP, that will kick out high default rate schools.
